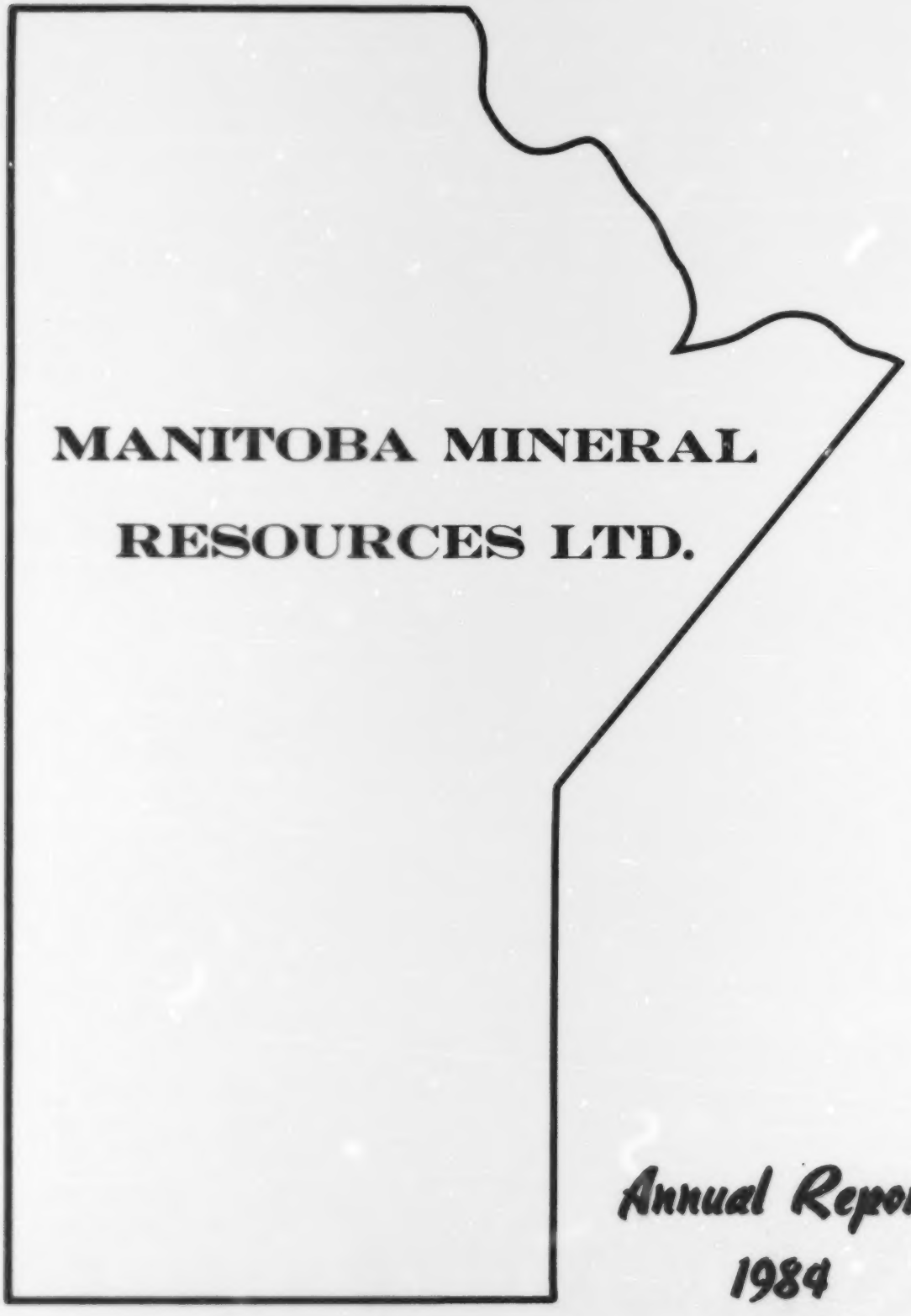


MANITOBA MINERAL RESOURCES LTD.

Annual Report

1984

MANITOBA MINERAL RESOURCES LTD.

Board of Directors

P. R. BROCKINGTON
Manager of Investor Identification
Department of Industry, Trade and Technology

D. B. GARDAVE
Executive Director, Department of Crown Investments
Chairman, Manitoba Mineral Resources Ltd.

C. T. WILLIAMS
Consulting Mining Engineer

H. D. B. WILSON
Consulting Geologist

Officers

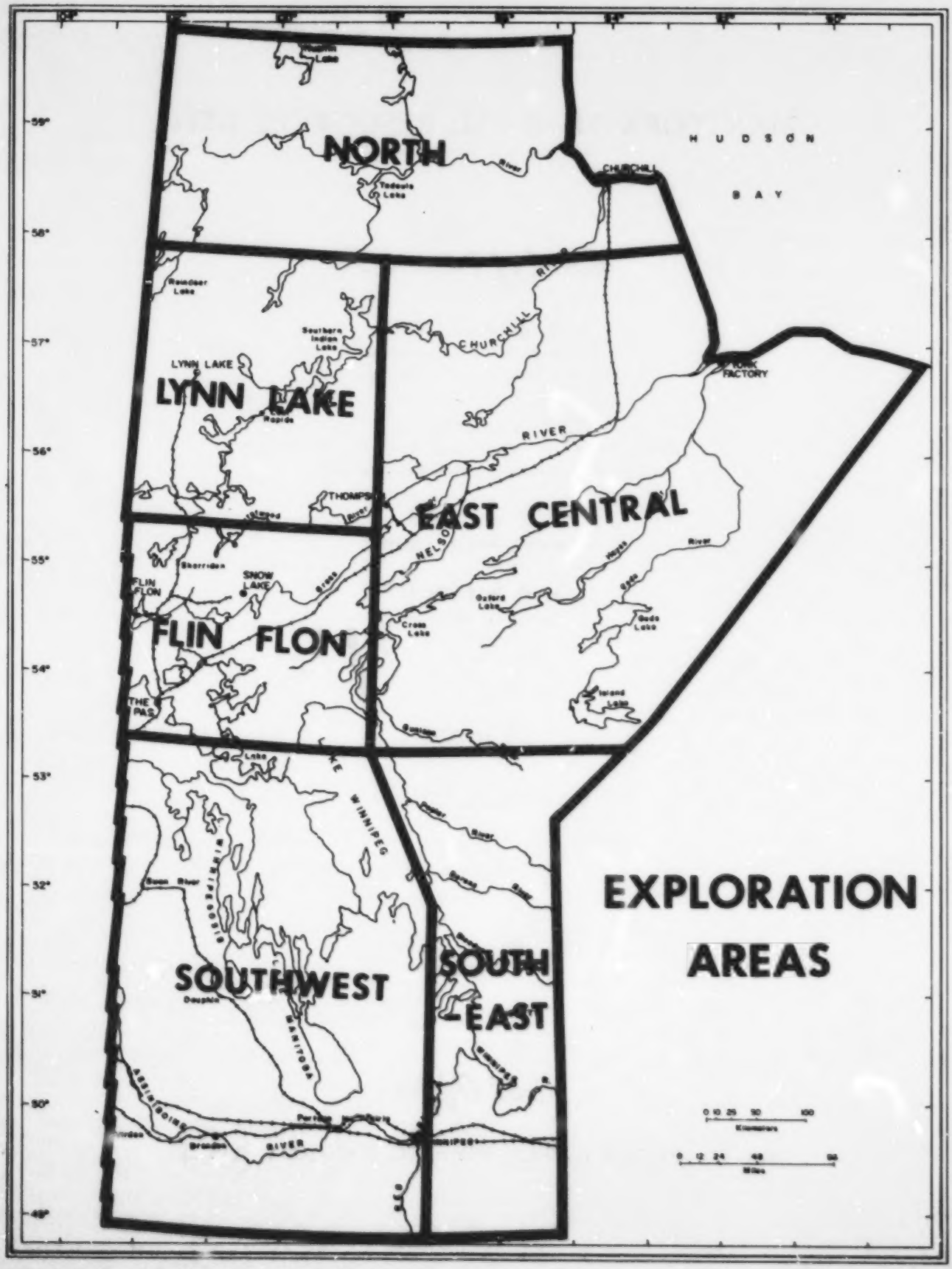
C. MALCOLM WRIGHT
President

D. NEIL BRIGGS
Vice President

H. D. BRUCE WILSON
Secretary

Head Office

603 - 491 PORTAGE AVENUE, WINNIPEG, MANITOBA R3B 2E4


NORTH
HUDSON
BAY
CHURCHILL
LYNN LAKE
LYNN LAKE
EAST CENTRAL
FLIN FLON
FLIN FLON
SOUTHWEST
SOUTH
EAST
EXPLORATION
AREAS

To the Honourable Wilson Parasiuk
Minister of Energy and Mines
Legislative Building
Winnipeg, Manitoba

SIR:

In accordance with Article 8(1), Chapter N33 of The Manitoba Natural Resources Development Act, the Board of Directors herewith submits the Company's Annual Report for the twelve months ended December 31, 1984. Financial statements are enclosed and include separate statements for exploration operations and the Trout Lake mine.

FINANCIAL RESULTS

The Company's 27% interest in the Trout Lake mine joint venture produced revenue from the sale of concentrates totalling $6,302,249. Direct costs were $4,941,875 resulting in an operating profit of $1,360,374. This was reduced to a net income of $1,324,473 after provision for amortization, administration and interest earned. This compares with a net income of $9,760 in the prior nine months.

Gross exploration expenditures were $2,501,020. Net exploration expenditures were $2,437,790 after allowing for income totalling $63,230.

Net exploration expenditures exceeded net income from the Trout Lake mine to produce a net loss of $1,113,317.

MINING OPERATIONS

The Company's share of ore produced from the Trout Lake mine amounted to 132,759 tons grading 2.45% copper, 3.76% zinc, 0.042 oz/ton gold and 0.354 oz/ton silver.

Revenues in 1984 show a marked improvement over the previous reporting period due to mining better grade ore, production of better quality concentrates, lower concentrate treatment charges, and lower operating costs. In addition, strong zinc prices more than offset lower copper, gold and silver prices. This is the first reporting period since production began in 1982 that the grade of ore mined approached the average grade of the ore reserve. Revenues in previous years were adversely affected by the mining of low grade ore in the upper part of the mine.

A joint task force on operating cost reductions, established two years ago and composed of mining engineers from Hudson Bay, Manitoba Mineral, Granges and Outokumpu, continued its work. Unit operating costs were $37.21/ton compared to $39.11/ton in the previous period. Efforts to further improve operating costs are continuing.

Underground exploration resulted in a net addition of 121,000 tons to the Company's share of the proven ore reserve after subtracting ore mined during the period. Proven reserves are sufficient for another nine years at current mining rates.

EXPLORATION OPERATIONS

Exploration activities covered 53 projects. The private sector participated in 36 of the projects; the remaining 17 were carried by the Company for its own account. Total project expenditures, including contributions from the private sector, were $3,437,120 of which the Company contributed $2,242,310 (65%). No significant discoveries were made.

Emphasis on exploration in the Lynn Lake area continued. Manitoba Mineral's expenditures in the area were $1,156,066, 52% of its total project expenditures. The future of the Lynn Lake community and the Province's investment in infrastructure are threatened by the announced closure of the Fox mine at the end of 1985 and uncertainty regarding a production decision on Sherritt Gordon's Agassiz gold deposit.

The Company's exploration expenditures distributed by project type are shown below.

	12 months ended Dec. 31, 1984		9 months ended Dec. 31, 1983	
PROJECT TYPE	Expenditures	%	Expenditures	%
Wholly owned	$1,031,622	46.0	$ 539,672	37.3
Joint ventures managed by MMR	437,364	19.5	245,026	17.0
Joint ventures managed by partners	773,324	34.5	660,808	45.7
TOTAL	$2,242,310	100.0	$1,445,506	100.0

Total exploration expenditures are at about the same level when the difference in the reporting periods is taken into account. Expenditures on wholly owned projects largely reflect activities in the Lynn Lake area where the Company has both copper-zinc projects and gold projects. All of its gold projects in the area are joint ventured, but many of its copper-zinc projects are being financed by the Company alone. Most out-of-Province mining companies with no infrastructure to protect are interested only in gold projects due to the spectacular success of gold exploration in the Hemlo area in Ontario and low copper prices.

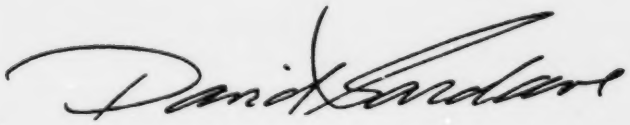
BOARD OF DIRECTORS

Paul Brockington, formerly a mining analyst with Richardson Greenshields of Canada Limited and now Manager of Investor Identification with the Department of Industry, Trade and Technology, was elected a Director on December 7, 1984.

PERSONNEL

At year end the full time staff numbered fourteen, an increase of two over the previous period. The Board extends to the members of the staff its thanks for their individual contributions to the activities covered by this report.

On Behalf of the Board of Directors,



DAVID B. GARDAVE, *Chairman of the Board.*

March 20, 1985.

Mining Operations — Trout Lake

The Trout Lake mine, 7 kilometers northeast of Flin Flon is a joint venture owned by Hudson Bay Mining and Smelting Co., Limited (44%), Manitoba Mineral Resources Ltd. (27%), Granges Exploration Ltd. (19.8%) and Outokumpu Oy (9.2%). Hudson Bay operates the mine and, under a contract covering the life of the mine, mills the partners' share of the ore produced. Copper and zinc concentrates are sold to Hudson Bay under contracts expiring in 1987. Data tabulated below represent Manitoba Mineral's 27% share.

ORE PRODUCTION

	Tons	Cu %	Zn %	Au oz/ton	Ag oz/ton
12 months ended December 31, 1984	132,759	2.45	3.76	0.042	0.354
9 months ended December 31, 1983	100,051	1.94	4.54	0.047	0.322

PAYABLE METALS

	Copper lbs.	Zinc lbs.	Gold ozs.	Silver ozs.
12 months ended December 31, 1984	5,595,935	6,456,889	3,146	22,615
9 months ended December 31, 1983	3,277,776	5,944,098	2,644	10,591

PROVEN RESERVES

	Tons	Cu %	Zn %	Au oz/ton	Ag oz/ton
December 31, 1984	1,249,000	2.43	5.5	0.054	0.52
December 31, 1983	1,128,000	2.66	5.8	0.061	0.57

For the first time since production began in 1982, the grade of ore produced approached the average grade of the ore reserve with a favourable impact on financial results. Earlier production came from relatively low grade areas in the upper part of the mine. An accelerated development program begun in 1983 and completed in 1984 established deeper levels and access to better grade ore.

Underground exploration continued to be successful and resulted in an addition of 121,000 tons to the proven ore reserve. This is a net addition after allowing for the 132,759 tons extracted in the period. Proven reserves are sufficient for another nine years at current mining rates.

A cost reduction task force, established in 1983 and composed of one representative from each of the joint venturers, continued its work and made recommendations resulting in cost savings. Direct unit operating costs were $37.21/ton compared to $39.11/ton in the prior period.

Exploration Operations

The Company starts exploration projects that are wholly owned in the early stages with the expectation they will attract private sector participation. Conversely, the Company participates in worthwhile projects proposed by the private sector.

Exploration activities in the year covered 53 projects with total expenditures of $3,437,120. The Company contributed $2,242,310 (65%) — the balance amounting to $1,194,810 was supplied by the private sector. No significant mineralization was discovered.

Participation by the Company and its partners is summarized in the table below.

No. of Projects	Type	MMR Contribution	Partners' Contribution	Total Expenditures
17	Wholly Owned	$1,031,622	—	$1,031,622
8	Joint Venture managed by MMR	437,364	$ 216,463	653,827
28	Joint Venture managed by partner	773,324	978,347	1,751,671
53		$2,242,310	$1,194,810	$3,437,120

AREAS EXPLORED AND METALS SOUGHT

For ease of reference the Province is divided into a number of exploration areas (see map at front). A summary of the distribution of Manitoba Mineral's expenditures by area is given in the following table.

Area	No. of Projects	MMR Expenditures	Expenditures % of Total
Lynn Lake	23	$1,156,067	51.6
Flin Flon	26	856,894	38.2
Southeast	4	229,349	10.2
	53	$2,242,310	100.0

The distribution of total expenditures by metals sought is: copper-zinc, 69.8%; gold, 27.7%. Research on project generation accounted for 2.5% of total expenditures.

NEW PROJECTS

Nine new projects were started, four in the Lynn Lake area and five in the Flin Flon area. Seven of the new projects are designed to explore for copper-zinc mineralization; two are targeted at gold.

NEW AGREEMENTS

Eight new joint venture agreements were entered into as detailed below.

Project	Area	Partner	MMR Interest (%) at Dec. 31, 1984
Counsell	Lynn	Sherritt Gordon Mines Limited	43.7
Phy	Lynn	Sherritt Gordon Mines Limited	31.7
Minton	Lynn	Sherritt Gordon Mines Limited	73.6
Eagle	Lynn	Noranda Exploration Company Limited	50.0
Sunday	Flin Flon	Noranda Exploration Company Limited	50.0
Wekusko	Flin Flon	Noranda Exploration Company Limited	50.0
Tin	Flin Flon	Hudson Bay Exploration and Development Company Limited	15.3
Dolomite	Flin Flon	Hudson Bay Exploration and Development Company Limited	99.1

Manitoba Mineral together with other joint venture participants (Pinebay Partners, Cerro Mining Company of Canada Limited and A. L. Parres Ltd.) optioned the Tip Top and Pic claims in the Flin Flon area to Hudson Bay Exploration and Development Company Limited.

Manitoba Mineral and A. L. Parres Ltd. optioned the Gag claims in the Flin Flon area to Hudson Bay Exploration and Development Company Limited.

MANITOBA MINERAL RESOURCES LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A, B, C and D and Schedule 1, of Manitoba Mineral Resources Ltd. for the year ended December 31, 1984. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of Manitoba Mineral Resources Ltd. as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting policies stated in note 3 to the financial statements applied on a basis consistent with that of the preceding period.

F. H. JACKSON, C.A.,
Assistant Provincial Auditor.

February 28, 1985,
Winnipeg, Manitoba.

MANITOBA MINERAL RESOURCES LTD.

BALANCE SHEET
as at December 31, 1984
(with comparative figures at December 31, 1983)

ASSETS

	1984	1983
Current assets:		
Cash — in bank	$ 33,927	$ 370,533
— in trust with the Minister of Finance	3,110,000	905,000
Settlements and accounts receivable [Notes 3(b) and 7]	1,060,993	1,530,969
Accrued interest receivable	44,567	12,669
Prepaid expenses	3,964	352,247
Total current assets	4,253,451	3,171,418
Fixed assets [Notes 3(c) and (d)]:		
Field equipment	164,625	108,054
Office equipment	40,988	30,047
Office renovations	5,975	5,975
Vehicles	16,135	16,135
Exploration and development — Trout Lake mine	1,114,897	1,103,064
	1,342,620	1,263,275
Less: accumulated depreciation	145,492	139,301
accumulated amortization — Trout Lake mine	362,582	263,845
	508,074	403,146
Fixed assets, net	834,546	860,129
	$5,087,997	$4,031,547

Approved on behalf of the Board:

D. B. GARDAVE, *Director*

H. D. B. WILSON, *Director*

The accompanying notes are an integral part of the financial statements.

LIABILITIES

	1984	1983
Current liabilities:		
Accounts payable	$ 292,856	$ 312,089
Total current liabilities	292,856	312,089

SHAREHOLDER'S EQUITY

Capital stock (Note 1):		
Authorized — unlimited number of shares without par value for unlimited consideration		
Issued and fully paid —		
5 shares at $1.00 each	5	5
680,000 shares at $10.00 each	6,800,000	4,611,000
	6,800,005	4,611,005
Capitalized exploration expenditures — Trout Lake mine [Note 3(d)]	335,498	335,498
Conditional grants (Note 4)	8,239,348	8,239,348
Exploration expenditures, net, Exhibit B	(11,637,421)	(9,199,631)
Operating surplus (deficit) — Trout Lake mine, Exhibit C	1,057,711	(266,762)
Shareholder's equity, net	4,795,141	3,719,458
	$5,087,997	$4,031,547

The accompanying notes are an integral part of the financial statements.

Exhibit B

MANITOBA MINERAL RESOURCES LTD.

STATEMENT OF EXPLORATION EXPENDITURES

For the year ended December 31, 1984

(with comparative figures for the nine months ended December 31, 1983)

	1984	1983
Exploration expenditures:		
Wholly owned ventures	$1,031,622	$ 539,672
Joint ventures operated by Manitoba Mineral Resources Ltd.	653,827	213,768
Deduct: recoveries from joint venture partners	216,463	95,243
	437,364	118,525
Joint ventures operated by partners	773,324	605,395
Total joint venture exploration expenditures	1,210,688	723,920
	2,242,310	1,263,592
Ruttan Mine evaluation	39,271	28,965
Payments under Mandatory Participation Agreements administered under an agreement with the Province of Manitoba	—	211,409
Recoveries under Mandatory Participation Agreements:		
Province of Manitoba (Note 6)	—	211,409
	—	—
General and administration expenses, Schedule 1	219,439	121,962
	2,501,020	1,414,519
Income:		
Oil production	3,247	1,452
Management fees	23, 538	10,155
Option payments and sales of interests	33,765	—
Sundry	2,680	—
	63,230	11,607
Exploration expenditures, net, [Note 3(d)]	2,437,790	1,402,912
Balance, beginning of period	9,199,631	7,796,719
Total exploration expenditures, net, from inception, Exhibit A	$11,637,421	$9,199,631

The accompanying notes are an integral part of the financial statements.

Exhibit C

MANITOBA MINERAL RESOURCES LTD.

TROUT LAKE MINE

STATEMENT OF OPERATIONS AND SURPLUS
For the year ended December 31, 1984
(with comparative figures for the nine months ended December 31, 1983)

	Dec. 31, 1984	Dec. 31, 1983
Revenue:		
Sales of concentrates [Note 3(b)]	$6,302,249	$4,113,769
Expenses:		
Mining	3,892,920	3,182,154
Milling	1,028,819	702,766
Monitoring	20,136	28,517
	4,941,875	3,913,437
Operating income before the following:	1,360,374	200,332
Other expenses:		
Amortization of exploration and development expenditures	98,737	161,044
Administration, Schedule 1	45,940	42,197
	144,677	203,241
Less interest earned	108,776	12,669
	35,901	190,572
Net income for the period	1,324,473	9,760
Deficit, beginning of period	(266,762)	(276,522)
Surplus, (deficit), end of period, Exhibit A	$1,057,711	$ (266,762)

The accompanying notes are an integral part of the financial statements.

Exhibit D

MANITOBA MINERAL RESOURCES LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1984

(with comparative figures for the nine months ended December 31, 1983)

	Dec. 31, 1984	Dec. 31, 1983
Source of funds:		
Shares issued and paid	$2,189,000	$4,611,000
Conditional grants from the Province of Manitoba	—	447,348
Trout Lake mine operations, Exhibit C	1,324,472	9,760
Add non-cash charge, amortization	98,737	161,044
	3,612,209	5,229,152
Application of funds:		
Exploration expenditures, net, Exhibit B	2,437,790	1,402,912
Less non-cash charge, depreciation	9,728	4,701
	2,428,062	1,398,211
Discharge of Province of Manitoba advances	—	2,800,000
Purchase of fixed assets, net	71,048	22,122
Mine development expenditures	11,833	3,084
	2,510,943	4,223,417
Increase in working capital	1,101,266	1,005,735
Working capital, beginning of period	2,859,329	1,853,594
Working capital, end of year	$3,960,595	$2,859,329

The accompanying notes are an integral part of the financial statements.

Schedule 1

MANITOBA MINERAL RESOURCES LTD.

SCHEDULE OF GENERAL AND ADMINISTRATION EXPENSES

For the year ended December 31, 1984

(with comparative figures for the nine months ended December 31, 1983)

	Dec. 31, 1984	Dec. 31, 1983
Salaries, wages and employee benefits (Note 11)	$ 167,589	$ 134,375
Office rent	46,498	14,625
Equipment rental and maintenance	8,043	10,969
Accounting and audit	23,771	19,528
Legal	10,188	6,722
Telephone	8,876	5,367
Printing, postage and supplies	16,036	11,550
Directors fees	2,800	1,800
Depreciation	9,728	4,700
Corporation capital tax	7,438	—
Other	13,809	19,382
	314,776	229,018
Less allocated:		
Trout Lake mine	45,940	42,197
Field equipment recovered	49,397	21,953
Mandatory participation agreements	—	42,906
	95,337	107,056
	$ 219,439	$ 121,962

The accompanying notes are an integral part of the financial statements.

MANITOBA MINERAL RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 1984

1. Status of the Company

Manitoba Mineral Resources Ltd. is a crown corporation established under The Manitoba Natural Resources Development Act and incorporated under the Manitoba Corporations Act. The issued shares are held by the Province of Manitoba except for five shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba. On August 12, of 1983, Articles of the Corporation were amended which authorized an issue of an unlimited number of common shares for an unlimited maximum consideration. During the year, 218,900 shares were issued to the Province of Manitoba for a consideration of $10.00 per share as explained in note 4.

2. Nature of the Operations

The Company undertakes exploration for minerals in the Province of Manitoba through wholly owned ventures and joint ventures. These joint ventures are operated by either the Company or the partners.

The Company also maintains an interest in the development, mining and processing of ore from the Trout Lake mine and the sale of the concentrates. This activity is further explained in note 5.

3. Significant Accounting Policies

(a) Accounting basis
The accounts are reflected on the accrual basis of accounting.

(b) Settlements receivable
The Company entered into a contract with Hudson Bay Mining and Smelting Co., Limited for the sale of its concentrates. Under the terms of the contract, the concentrates are deemed to be sold at the time of delivery of ore to the mill. The settlements receivable on sales of ore concentrates are recorded at the estimated net realizable value.

(c) Fixed assets and depreciation
Fixed assets are recorded at cost. Depreciation is taken on a straight line basis.

(d) Exploration and development expenditures and amortization
Exploration costs are charged to expense as incurred. They are capitalized when a mine is brought into production. The development costs associated with bringing a property into an operating mine status are capitalized. The capitalized costs in respect to an operating mine are amortized by the unit-of-production method based on estimated recoverable reserves.

4. Province of Manitoba Funding

Authorized funds available from the Province of Manitoba, since inception, of $8,239,348 have been drawn down as conditional working capital grants as of December 31, 1983. These grants are non-interest bearing and conditional on the basis that they become repayable to the Province if, as and when exploration projects become profitable ventures.

During the year, the Province purchased shares of the Company as a method of funding the Company's activities, instead of making further conditional grants or advances. Under the authority of The Loans Act, 1983(2), the Minister of Finance can purchase $5,600,000 of share capital of the Company. As at December 31, 1984, $4,000,000 of this amount has been paid to the Company in exchange for its shares. Under the authority of The Loans Act 1984(2), the Minister of Finance may purchase $7,062,000 of share capital of the Company. None of this has been paid to the Company at December 31, 1984.

5. Trout Lake Mine

The Company acquired the interest in the Trout Lake mine from the Province effective December 31, 1983 without charge. Up to that time, the Company had been the agent for the Province in the management of this interest. The comparative figures for 1983 in Exhibit C are provided for information purposes.

The Trout Lake mine is an unincorporated joint venture which is limited to the development and operation of the mine. The joint venture partners take the ore produced in proportion to their interests and are individually responsible for processing of the ore and sale of the concentrates.

The Company is participating in the joint venture with Hudson Bay Mining and Smelting Co., Limited and the Scandinavian Minerals Syndicate which is made up of Granges Exploration Ltd. and Outokumpu Oy. Ownership interests are: Company - 27%, H.B.M.S. Co., Limited - 44%, Scandinavian Minerals Syndicate - 29%.

These financial statements reflect the Company's expenditures for its 27% interest in the joint venture operations and the additional activities outside of the joint venture, including arrangements for the processing of the ore, sale of concentrates, monitoring and administration.

MANITOBA MINERAL RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 1984

6. *Mandatory Participation Agreements*

Under an agency agreement entered into with the Province in 1978, the Company managed the Province's interests in the mandatory participation agreements. These interests were transferred without charge to the Company effective December 31, 1983 by agreement.

Expenditures on these properties for the year ended December 31, 1984 are included in Exhibit B as joint ventures operated by Manitoba Mineral Resources Ltd. and joint ventures operated by partners.

7. *Settlements and Accounts Receivable*

	Dec. 31, 1984	Dec. 31, 1983
Settlements receivable on sales of Trout Lake mine concentrates [Note 3(b)]	$1,000,188	$1,465,034
Accounts receivable	60,805	65,935
	$1,060,993	$1,530,969

8. *Commitments*

The Company has outstanding commitments totalling $456,256 ($488,740 - December 31, 1983).

9. *Contingencies*

The Company has contingent liabilities for guarantees of bank letters of credit totalling $125,000 ($165,000 - December 31, 1983).

10. *Economic Dependence*

The Company is economically dependent on the Province of Manitoba.

11. *Comparative Figures*

In 1983 the year end of the Company was changed to December 31st. As a consequence, the figures shown for December 31, 1983 are for a nine month period as compared with the twelve month period for 1984.

Salaries, wages and benefits pertaining to Exploration have been charged directly to Exploration for the year ended December 31, 1984. The total salaries, wages and benefits paid for the year was $565,989 (nine months to December 31, 1983 - $333,361) of which $398,400 has been charged to Exploration (1983 - $198,986).

Comparative figures have been restated where necessary to conform to the presentation adopted in these statements for the year ended December 31, 1984.